The Influence of Financial and Non-financial Factors on the Acceptance of Going-concern Audit Opinion

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Abstract

There are some sectors that can be affected by a global crisis, such as infrastructure, utilities, and transportation. This can be seen from the declining number of income in the year of the crisis, which is generally caused by a lot of financial losses; the large amount of short-term debt, and the significant reduction in the amount of capital funds, which, in turn, could become the trigger of a matter of survival for the company. This study was conducted to determine the effects of liquidity ratio, profitability ratio, leverage, company size, and auditor rotation on the acceptance of the going-concern audit opinion. The analytical tool used in this study was the binary logistic regression with the support of the SPSS counting software. The result was that the leverage and company size variables affected the going-concern audit opinion acceptance, whereas liquidity ratio, profitability ratio and auditor rotation did not. Furthermore, all five variables simultaneously affected the going-concern audit opinion.

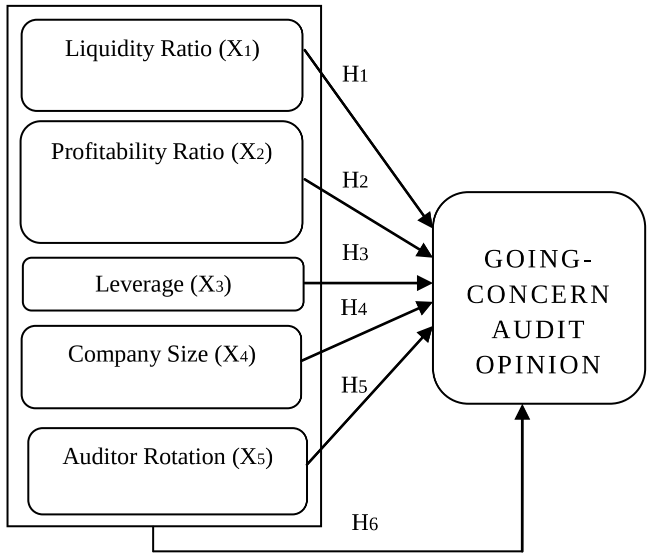
Keywords: effects, financial, non-financial, going-concern

■ 1. BACKGROUND

Going concern is the proposition that states that a company will continue to run its operations in a period of time long enough to realise its projects, responsibilities, and endless activities (Belkaoui, 2006). When an auditor doubts a company's ability to run its business, that is when the auditor gives a going-concern opinion (modification opinion). During the global crisis in 2008, there were at least 3 sectors affected: infrastructure, utilities, and transportation. This could be seen from the declining number of income in that particular year, which increased in the following year only to decrease again. The decrease in profit that year was generally due to a substantial amount of financial losses, a large amount of short-term debt, and a significant reduction in the amount of capital funds, which triggered a survival issue for companies. Based on this background, the researcher is motivated to do a research about some factors, both financial and non-financial, which influence the going-concern audit opinion. The financial factors are liquidity ratio, profitability ratio, leverage, and company size; and the non-financial factor is the rotation of the auditor. The purposes of this study are:

1. To determine the effects of the liquidity ratios on the going-concern audit opinion.
2. To determine the effects of the profitability ratios on the going-concern audit opinion.
3. To determine the effects of leverage on the going-concern audit opinion.
4. To determine the effects of company size on the going-concern audit opinion.
5. To determine the effects of auditor rotation on the going-concern audit opinion.
6. To determine the simultaneous effects of all variables mentioned above on the going-concern audit opinion.

Figure 1.1 Research Model



1.1 Hypotheses

H1: Liquidity ratio affects the going-concern audit opinion.
H2: Profitability ratio affects the going-concern audit opinion.
H3: Leverage affects the going-concern audit opinion.
H4: Company size affects the going-concern audit opinion.
H5: Auditor rotation affects the going-concern audit opinion.
H6: Liquidity ratio, profitability ratio, leverage, company size and auditor rotation simultaneously affect the going concern audit opinion.

2. RESEARCH METHODOLOGY

The objects of this research are companies within the fields of infrastructure, utilities, and transportation sectors listed in the Indonesia Stock Exchange (IDX) in the period of 2008-2012. The research utilises the multivariate testing technique using the binary logistic regression analytical tool with the support of the SPSS counting software. Stages in the logistic regression testing are described as follows:

1. Testing feasibility of the model.
2. Testing overall model.
3. Testing the Determinants R^2.
4. Table classification.
5. Testing the hypotheses.

Table 2.1 The Operations of Research Variables

Variable(s)	Definition	Formula
CR (X_1)	The company's ability to fulfill short-term liabilities with the current assets.	$\frac{Current\ Assets}{Current\ Liabilities}$
ROA (X_2)	The company's ability to earn profits by maximizing its assets.	$\frac{Earning\ Before\ Tax}{Total\ Assets}$
DR (X_3)	The proportion of the use of loans to finance its investment.	$\frac{Total\ Liabilities}{Total\ Assets}$
Size (X_4)	The scale that classifies a company as large, medium, or small; based on its size.	Ln(Total Assets)
RA (X_5)	Rotation of auditors from different KAPs performed by the client's company.	0 = Non RA 1 = RA
GC (Y)	Included in the going-concern opinion is unqualified going concern with explanatory language, adverse opinion, and qualified opinion or disclaimer opinion.	0 = Non GC 1 = GC

3. ANALYSIS AND DISCUSSION

From the regression model used, there are six hypotheses tested. The results are shown in the following table:

Table 3.1 Summary of Research Results

No.	Variable(s)	Significance	Hypothesis Test Result	Meaning
1	Liquidity Ratio	0.150	Invalid	Does not affect the going-concern audit opinion. The auditor did not only consider the companies' ability to fulfill short-term affairs.

2	Profitability Ratio	0.172	Invalid	Does not affect the going-concern audit opinion. The research shows that, in fact, some companies with low ROA do not get any going-concern audit opinion, such as Indonesia Air Transport, Pelayaran Tempuran Emas, and Nusantara Infrastructure.
3	Leverage	0.044	Valid	Affects the going-concern audit opinion. The auditors doubted the companies’ ability to maintain its business because most of the gained funds would be used to cover debts.
4	Company Size	0.002	Valid	Affects the going-concern audit opinion. Large companies are believed to be able to cope with financial difficulties while smaller companies will be subjects to the auditor's judgment to receive going-concern audit opinion.

5	Auditor Rotation	0.216	Invalid	Does not affect the going-concern audit opinion. The companies which perform auditor rotation are not automatically omitted from the going-concern audit opinion
6	Liquidity ratio, profitability ratio, leverage, company size and auditor rotation (simultaneous)	0.000	Valid	All five variables affect the going-concern audit opinion. This means that all five variables are to be taken into consideration in issuing the auditor's going-concern audit opinion.

4. CONCLUSION

4.1 Conclusion

1. The liquidity ratio variable does not affect the going-concern audit opinion with a significance value of 0.150.
2. The profitability ratio variable does not affect the going-concern audit opinion with a significance value of 0.172.
3. The leverage variable affects the going-concern audit opinion with a significance value of 0.044.
4. The company size variable affects the going-concern audit opinion with a significance value of 0.002.
5. The auditor rotation variable does not affect the going-concern audit opinion with a significance value 0.216.
6. Simultaneously, the liquidity ratio, profitability ratio, leverage, company size and auditor rotation variables affect the going-concern audit opinion with a significance value of 0.000.

4.2 Limitations and Suggestions

This study used only 5 independent variables: liquidity ratio, profitability ratio, leverage, company size and auditor rotation. Also, the study was limited to the period of 2008 – 2012 and to the infrastructure, utilities and transportation sectors listed on the Stock Exchange.

On the basis of these limitations, the following suggestions are encouraged:

1. Further researches may add other financial and non-finacial factors, as well as market factors.
2. Expand and/or use different research objects.
3. Extend the period of the study to be able to see other, existing negative trends.

4.3 Managerial Implications

Emitents are expected to maintain the leverage value low in order to reduce the risk of getting a going-concern audit opinion. Emitents are also expected to improve their company size to ensure long-term survival. Furthermore, in regards of improving quality and upholding the independence of the auditors, emitents should continue rotating auditors.

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